REPORT OF
FINANCIAL EXAMINATION

FREISTATT MUTUAL INSURANCE COMPANY

AS OF
DECEMBER 31, 2005

STATE OF MISSOURI
DEPARTMENT OF INSURANCE
JEFFERSON CITY, MISSOURI

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August 22, 2006
Freistatt, Missouri

Honorable W. Dale Finke, Director
Missouri Department of Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Sir:

In accordance with your examination warrant, a full-scope examination has been made of the records, affairs and financial condition of

FREISTATT MUTUAL INSURANCE COMPANY

hereinafter referred to as such, or as the "Company". The Company's home office and principal place of business is located at 411 North Main (P.O. Box 80), Freistatt, Missouri, telephone number (417) 235-5366. This examination began on August 15, 2006, and was concluded on August 16, 2006, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company was made as of December 31, 2000, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2001, through December 31, 2005, and was conducted by examiners from the Missouri Department of Insurance.

This examination also included material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth in the Financial Examiners Handbook of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the Missouri Department of Insurance and statutes of the State of Missouri prevailed.

Comments-Previous Examination Report

The comments, recommendations, and notes of the previous examination report dated December 31, 2000, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

Fidelity Bond and Other Insurance

Comment: It was recommended the Company obtain fidelity bond coverage for all Company personnel who are authorized to sign checks.

Company Response: The Company's Board of Directors declined to obtain additional fidelity bond coverage for the office manager due to the cost prohibitive nature of obtaining additional coverage, and due to the fact that the office manager is not authorized to write loss settlement checks. In addition, all checks in excess of $10,000 must be authorized by a member of the Executive Committee.

Current Findings: The Company has not obtained fidelity bond coverage for the office manager, as recommended in the prior examination report. However, it appears the Company has put in place the necessary controls to safeguard the assets of the Company.

Territory and Plan of Operations

Comment: It was recommended that the agent agreements be revised to include the necessary safeguards to the Company.

Company Response: The Company revised its agent agreements to include the recommended safeguards.

Current Findings: The Company's current agent agreements include language requiring agents to obtain errors and omissions insurance and to submit fully completed applications to the home office in a timely manner, as recommended in the prior examination report.

HISTORY

General

The Company was originally organized on February 19, 1887, and incorporated on March 13, 1935, as Farmers Mutual Insurance Company of Lawrence County. On March 5, 1985, the Company amended its Articles of Incorporation, changing its name to Freistatt Mutual Insurance Company.

The Company has a Certificate of Authority dated July 1, 1991, and is covered by Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Companies). The Company's Certificate of Authority is renewed annually.

Management

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is held on the first Tuesday in March, at the home office of the Company or at such other place as may be designated by the Board of Directors. Special meetings of the members may be called by the Board of Directors at any time and shall be called upon petition of one-fourth of the members. Ten members shall constitute a quorum at any membership meeting. Proxy voting is not permitted.

The management of the Company is vested in the Board of Directors, who are elected from the general membership. The Board of Directors consists of nine members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately every quarter, and the directors are compensated $250 per each meeting attended.

Members serving on the Board of Directors as of December 31, 2005, were as follows:

Name and Address	Occupation	Term
Elmer Kaiser 411 East Cleveland Monett, Missouri	Farmer/Insurance Agent	2004-2007
Kathy Kellhofer P.O. Box 369 Sarcoxie, Missouri	Insurance Agent	2004-2007

Ed Mosher P.O. Box 205 Miller, Missouri	Insurance Agent	2005-2008
Melvin E. Needham P.O. Box 80 Freistatt, Missouri	Company Manager	2004-2007
Donny Buntin P.O. Box 248 Marionville, Missouri	Insurance Agent/Auctioneer	2005-2008
Gayle W. Cobb 1301 Frazier Road Clever, Missouri	Insurance Agent	2003-2006
Robert Patterson P.O. Box 296 Diamond, Missouri	Insurance Agent/Farmer	2005-2008
Steve Quade 16367 Lawrence 1125 Mt. Vernon, Missouri	Conservation Agent	2003-2006
Kert Stump 18822 County Road 220 Oronogo, Missouri	Farmer/Insurance Agent	2003-2006

The Board of Directors appoints for a term of one year, a President, a Vice-President, a Second Vice-President, and a Secretary, who may also serve as Treasurer when designated by the Board.

The officers of the Company serving at December 31, 2005, were as follows:

Elmer Kaiser	President
Kathy Kellhofer	Vice-President
Ed Mosher	Second Vice-President
Melvin E. Needham	Secretary/Treasurer

Conflict of Interest

The Company has written conflict of interest procedures for the disclosure of material conflicts of interest or affiliations by its directors and officers. The Company has its directors and officers sign conflict of interest statements on an annual basis, and no material potential conflicts were disclosed.

Corporate Records

A review was made of the Articles of Incorporation of the Company. The Company converted to a non-assessable mutual effective June 1, 2004; however, the Company's Articles of Incorporation were not properly amended to change references from "assessments" to "premiums." As the Company currently collects premiums rather than assessments, it is necessary that the Articles of Incorporation be amended to reflect this activity. It is recommended the Company amend its Articles of Incorporation to change all references from "assessment" to "premium" and file such amendments with the Director of the Missouri Department of Insurance in accordance with Section 380.241 RSMo (Amendment to Articles and Bylaws, Procedure-Fee).

The minutes of the membership and the Board of Directors' meetings were reviewed for the period under examination. The minutes and records of the Company appear to properly reflect corporate transactions and events.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a fidelity bond providing a limit of liability of $50,000. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC, which is between $50,000 and $75,000 in coverage.

The Company carries liability coverage for its directors and officers with an aggregate limit of $2,000,000 and a $2,500 deductible in aggregate for each claim.

The Company's agents are required to purchase their own errors and omissions coverage, with no reimbursement from the Company.

The Company also carries property insurance coverage on its home office and equipment, as well as business liability insurance.

The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has two full-time and two part-time employees. The Company provides health and life insurance benefits to full-time employees. Each year, full-time employees also receive two weeks of sick leave and two to three weeks of vacation, depending upon length of service with the Company. The Company appears to have made adequate provisions in the financial statements for these employee benefits.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company is licensed by the Missouri Department of Insurance as an Extended Missouri Mutual Company operating under Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Companies). The Company is authorized to write fire, wind and liability insurance in all counties in the State of Missouri. The Company writes fire, wind and liability coverages. The Company's policies are sold by eleven licensed producers, who receive a 20% commission.

Policy Forms and Underwriting Practices

The Company uses ISO policy forms. The policies are written on a continuous period. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured. Inspections are performed by the Company Inspector/Adjuster and adjusting services are performed by the Company Manager and the Company Inspector/Adjuster.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	Admitted Assets	Liabilities	Gross Assessment	Gross Losses	Investment Income	Underwriting Income	Net Income
2005	$2,888,861	$388,987	$904,035	$ 418,137	$102,112	$ (80,122)	$ 9,535
2004	2,885,914	395,575	856,182	286,583	91,358	12,408	96,869
2003	2,723,062	329,596	788,754	2,176,140	106,651	(234,357)	(116,807)
2002	2,779,168	268,892	722,890	170,311	112,972	113,722	254,658
2001	2,503,901	248,284	693,853	313,584	132,893	21,422	181,582

At year-end 2005, 1,769 policies were in force.

REINSURANCE

General

The Company's reinsurance premium activity on a direct-written, assumed and ceded basis for the period under examination is shown below:

	2001	2002	2003	2004	2005
Direct	$693,853	$722,890	$768,113	$834,712	$904,035
Assumed	0	0	20,671	21,470	22,797
Ceded	(83,563)	(93,536)	(134,871)	(199,385)	(245,456)
Net	$610,290	$629,354	$653,913	$656,797	$681,376

Assumed

The Company participates in a reinsurance pool with MAMIC Mutual Insurance Company (MMIC). The agreement pertains to errors and omissions policies and director and officer liability policies written by MMIC. MMIC cedes 100% of the first $1,000,000 each claim and in aggregate on all insurance agent and broker errors and omissions policies and 100% of the first $2,000,000 each claim and in aggregate on all officer and director liability policies to the pool. MMIC receives a 35% ceding commission of net written premium ceded to the pool. The Company has a 5% share in the interests and liabilities of the pool.

Ceded

The Company has all of its reinsurance through Cameron Country Mutual Insurance Company (the reinsurer) under a single reinsurance agreement for both property and casualty risks. The per risk excess of loss section of the agreement pertains to property risks and consists of two layers. Under the first layer, the Company retains $75,000 per risk and the reinsurer's limit is $100,000. The second layer retention is $175,000 and the reinsurer's limits are $50,000 for commercial and confinement risks and $250,000 for all other risks. The reinsurer's combined per occurrence limit for both layers is $700,000. Risks ceded under the agreement are limited to $225,000 for commercial and confinement risks and $425,000 for all other risks. The 2005 premium rate, as a percentage of written premiums, equaled 6.7% for layer one coverage and 2.2% for layer two coverage.

The catastrophe excess of loss section of the agreement pertains to property risks and consists of two layers. Under the first layer, the Company's retention is $200,000 per occurrence, and the reinsurer's limit is 95% of $1,000,000 per occurrence. Under the second layer, the Company's retention is $1,200,000, and the reinsurer's limit is 100% of $2,000,000. The reinsurer's annual limits are 95% of $2,000,000 for the first layer and 100% of $4,000,000 for the second layer. The 2005 premium rate was $.1858 and $.1500 per $1,000 total insurance in force for layers one and two, respectively.

The aggregate excess of loss section of the agreement pertains to property risks. The reinsurer is liable for 95% of losses in excess of 75% of the Company's net written premium, with an annual limit of $2,000,000. The 2005 reinsurance rate was 6.25% of written premium.

The contract has a liability quota share section for liability risks. The Company cedes 100% of the liability risks and premium to the reinsurer and receives a 22% ceding commission.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that any assuming reinsurer should fail to perform its obligations under its reinsurance agreement with the Company.

ACCOUNTS AND RECORDS

The accounting records are maintained by the Company on an accrual cash basis. The CPA Group, P.C. performs an annual audit of the Company's financial statements and prepares the annual statement and tax filings.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2005, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the Annual Statement and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the Financial Statements. (The failure of any column of numbers to add to its respective total is due to rounding or truncation.)

There may have been differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial, concerning their effect on the financial statements. Therefore, they were communicated to the Company and noted in the workpapers for each individual annual statement item.

ANALYSIS OF ASSETS
December 31, 2005

Bonds	$ 2,051,210
Stocks	94,591
Real Estate	28,521
Cash on Deposit	656,072
Other Investments	12,023
Reinsurance Recoverable on Unpaid Losses (Note 1)	0
Computer Equipment	1,426
Interest Due and Accrued	2,454
Asset Write-Ins	7,951

Total Assets	$ 2,854,248

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2005

Losses Unpaid (Note 1)	$ 19,218
Ceded Reinsurance Payable	6,605
Unearned Premium	312,420
Federal Income Tax Payable	12,557
Liability Write-Ins	3,574

Total Liabilities	$ 354,374

Guaranty Fund (Note 2)	$ 217,920
Other Surplus (Note 2)	2,281,954

Total Surplus	$ 2,499,873

Total Liabilities and Surplus	$ 2,854,248

STATEMENT OF INCOME
December 31, 2005

Net Premium	$ 658,578
Other Insurance Income	240
Net Losses Incurred	(334,866)
Other Underwriting Expenses	(404,075)
Net Underwriting Income (Loss)	$ (80,122)
Investment Income	$ 102,112
Other Income	102
Gross Income (Loss)	$ 22,092
Federal Income Tax	(12,557)
Net Income (Loss)	$ 9,535

CAPITAL AND SURPLUS ACCOUNT
December 31, 2005

Policyholders' Surplus, December 31, 2004	$ 2,490,338
Net Income (Loss)	9,535
Policyholders' Surplus, December 31, 2005	$ 2,499,873

NOTES TO THE FINANCIAL STATEMENTS

Note 1 – Reinsurance Recoverable on Unpaid Losses and Losses Unpaid

The Company reported reinsurance recoverable on unpaid losses of $34,613 on asset line 8b "Reinsurance Recoverable on Unpaid Losses" of the 2005 annual statement. Per the revisions made by the Missouri Department of Insurance to the 2005 annual statement blank, line 8b "Reinsurance Recoverable on Unpaid Losses" was deleted from the asset section of the annual statement. Reinsurance recoverables on unpaid losses are to be reported on liability line 1 "Gross Losses Unpaid less Reinsurance Recoverable" of the annual statement and netted against gross losses unpaid. It is recommended the Company make this reporting change in future annual statements.

Note 2 – Guaranty Fund and Other Surplus

The Company reported the minimum guaranty fund amount of $150,000, or $50,000 for each line of fire, wind and liability, on the 2005 annual statement. Per the provisions of Section 380.271 RSMo.(Financial Reinsurance Requirements), the guaranty fund is to consist of .1% for each fire and wind net risks in force. Utilizing the net in-force amount of $83,960,000 reported for each line of fire and wind on page 5 of the 2005 annual statement, the guaranty fund should be $83,960 for each of the fire and wind lines. As the minimum amount of $50,000 reported for the liability line appears sufficient per the statute, the total guaranty fund calculation per examination equaled $217,920, or $67,920 more than the reported amount of $150,000. It is recommended the Company apply the minimum guaranty fund calculations as defined in Section 380.271 RSMo.(Financial Reinsurance Requirements)for future reporting purposes.

EXAMINATION CHANGES

Total Policyholder's Surplus Per Company, December 31, 2005			$ 2,499,873
	Increase in Surplus	Decrease in Surplus	
Reinsurance Recoverable (Note 1)	$ 0	$ (34,613)	
Losses Unpaid (Note 1)	34,613	0	
Guaranty Fund (Note 2)	67,920	(0)	
Other Surplus (Note 2)	0	(67,920)	
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Total Change	$ 102,533	$ (102,533)	0
Total Policyholder's Surplus Per Examination, December 31, 2005			$ 2,499,873

GENERAL COMMENTS AND RECOMMENDATIONS

Corporate Records (Page 5)

It is recommended the Company amend its Articles of Incorporation to change all references from "assessment" to "premium" and file such amendments with the Director of the Missouri Department of Insurance in accordance with Section 380.241 RSMo (Amendment to Articles and Bylaws, Procedure-Fee).

Notes to the Financial Statements – Reinsurance Recoverable on Unpaid Losses (Page 12)

It is recommended the Company report reinsurance recoverable on unpaid losses as an offsetting amount to unpaid losses liability on future annual statements.

Notes to the Financial Statements – Guaranty Fund (Page 12)

It is recommended the Company apply the minimum guaranty fund calculations as defined in Section 380.271 RSMo.(Financial Reinsurance Requirements)for future reporting purposes.

SUBSEQUENT EVENTS

None.

ACKNOWLEDGMENT

The assistance and cooperation extended by the employees of Freistatt Mutual Insurance Company during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
) ss
County of Cole)

I, Shannon W. Schmoeger on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only the facts appearing upon the books, records or other documents of the company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

Shannon W. Schmoeger, CFE
Financial Examiner
Missouri Department of Insurance

Sworn to and subscribed before me this 22nd day of August, 2006.

My commission expires:

March 4, 2008

Notary Public

KATHRYN RANDOLPH
MY COMMISSION EXPIRES
March 4, 2008
NOTARY SEAL
Cole County
NOTARY PUBLIC, STATE OF MISSOURI

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

Frederick G. Heese, CFE, CPA
Audit Manager – Kansas City
Missouri Department of Insurance